Holy Cross Health, Inc.

(A Member of CHE Trinity Inc.)

Consolidated Financial Statements as of and
for the Years Ended June 30, 2014 and 2013,
Supplemental Consolidating Information as of
and for the Year Ended June 30, 2014, and
Independent Auditors' Report

HOLY CROSS HEALTH, INC.
(A Member of CHE Trinity Inc.)

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INDEPENDENT AUDITORS' REPORT

To CHE Trinity Inc. and the Board of Trustees of
Holy Cross Health, Inc.:

We have audited the accompanying consolidated financial statements of Holy Cross Health, Inc. (the "Corporation"), a wholly controlled member organization of CHE Trinity Inc., which comprise the consolidated balance sheets as of June 30, 2014 and 2013 and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Holy Cross Health, Inc. as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared from the separate records maintained by the Corporation and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Corporation had been operated as a company that was not affiliated with CHE Trinity Inc. Portions of certain revenue and expenses represent allocations to and from the Corporation's ultimate parent, CHE Trinity Inc. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

October 20, 2014

HOLY CROSS HEALTH, INC.
(A Member of CHE Trinity Inc.)

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2014 AND 2013
(In thousands)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,262	$ 21,806
Investment in CHE Trinity Inc. corporate pooled investment program	281,864	243,439
Patient accounts receivable — net of allowance for doubtful accounts of $9.9 million and $14.1 million in 2014 and 2013, respectively	55,475	53,692
Inventories	5,562	5,470
Prepaid expenses and other current assets	5,625	6,171
Total current assets	369,788	330,578
ASSETS LIMITED OR RESTRICTED AS TO USE:		
Deferred compensation	51	49
By donors	9,369	11,797
Total assets limited or restricted as to use	9,420	11,846
PROPERTY AND EQUIPMENT — Net	369,937	232,463
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	19,996	2,100
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	20,819	20,859
OTHER ASSETS	8,914	7,600
TOTAL ASSETS	$ 798,874	$ 605,446
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of notes payable to CHE Trinity Inc.	$ 7,476	$ 3,778
Accounts payable	40,037	44,224
Accrued expenses	555	344
Salaries, wages, and related liabilities	19,869	24,266
Estimated payables to third-party payers	16,961	19,055
Total current liabilities	84,898	91,667
NOTES PAYABLE TO CHE TRINITY INC. — Net of current portion	355,781	201,221
OTHER LONG-TERM LIABILITIES	3,396	671
Total liabilities	444,075	293,559
NET ASSETS:		
Unrestricted	345,430	300,002
Temporarily restricted	9,323	11,846
Permanently restricted	46	39
Total net assets	354,799	311,887
TOTAL LIABILITIES AND NET ASSETS	$ 798,874	$ 605,446

The accompanying notes are an integral part of the consolidated financial statements.

HOLY CROSS HEALTH, INC.
(A Member of CHE Trinity Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(In thousands)

	2014	2013
UNRESTRICTED REVENUE:		
Patient service revenue — net of contractual and other allowances	$ 412,681	$ 406,244
Provision for bad debts	15,487	19,454
Net patient service revenue	397,194	386,790
Net assets released from restrictions	928	1,065
Other revenue	16,076	16,190
Total unrestricted revenue	414,198	404,045
EXPENSES:		
Salaries and wages	169,087	169,266
Employee benefits	36,000	34,332
Contract labor	6,554	5,573
Total labor expenses	211,641	209,171
Supplies	66,182	65,498
Purchased services	60,559	57,490
Depreciation and amortization	23,747	22,588
Occupancy	14,149	13,184
Interest	3,723	3,905
Other	10,902	8,059
Total expenses	390,903	379,895
OPERATING INCOME	23,295	24,150
NONOPERATING ITEMS:		
Earnings in CHE Trinity Inc. corporate pooled investment program	24,812	14,414
Other	(1,549)	(1,136)
Total nonoperating items	23,263	13,278
EXCESS OF REVENUE OVER EXPENSES	46,558	37,428

(Continued)

HOLY CROSS HEALTH, INC.
(A Member of CHE Trinity Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(In thousands)

	2014	2013
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 46,558	$ 37,428
Net assets released from restrictions for capital	4,000	-
Transfers to affiliates	(5,130)	(5,374)
Increase in unrestricted net assets	45,428	32,054
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,405	9,510
Net assets released from restrictions	(4,928)	(1,065)
(Decrease) increase in temporarily restricted net assets	(2,523)	8,445
PERMANENTLY RESTRICTED NET ASSETS:		
Net investment income	9	8
Other	(2)	-
Increase in permanently restricted net assets	7	8
INCREASE IN NET ASSETS	42,912	40,507
NET ASSETS — Beginning of year	311,887	271,380
NET ASSETS — End of year	$ 354,799	$ 311,887

(Concluded)

The accompanying notes are an integral part of the consolidated financial statements.

HOLY CROSS HEALTH, INC.
(A Member of CHE Trinity Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(In thousands)

	2014	2013
OPERATING ACTIVITIES:		
Increase in net assets	$ 42,912	$ 40,507
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Transfers to affiliates	5,130	5,374
Net realized gains on investments	(9,386)	(8,184)
Change in net unrealized gains on investments	(12,807)	(3,588)
Restricted contributions and investment income	(2,415)	(9,518)
Depreciation and amortization	23,747	22,588
Provision for bad debts	15,487	19,454
Equity earnings in unconsolidated affiliates	(553)	(356)
Loss on sale of property and equipment	72	56
Changes in:		
Patient accounts receivable	(17,270)	(18,626)
Other assets	(4,988)	(6,035)
Accounts payable and other liabilities	4,958	(2,282)
Estimated payables to third-party payers	(2,094)	219
Total adjustments	(119)	(898)
Net cash provided by operating activities	42,793	39,609
INVESTING ACTIVITIES:		
Purchases of property and equipment	(167,865)	(78,624)
Proceeds from disposal of property and equipment	41	25
Purchases of locally held investments	(5,958)	(3,300)
Proceeds from sales of locally held investments	7,356	1,394
Distributions received from unconsolidated affiliates	157	470
Investment in unconsolidated affiliate	(17,500)	-
Change in investments in CHE Trinity Inc. corporate pooled investment program	(16,232)	(58,082)
Net cash used in investing activities	(200,001)	(138,117)
FINANCING ACTIVITIES:		
Transfers to affiliates	(5,130)	(5,374)
Proceeds from restricted contributions and restricted investment income	3,536	2,357
Proceeds from issuance of intercompany notes payable	163,200	80,000
Repayments of notes payable to CHE Trinity Inc.	(4,942)	(2,973)
Net cash provided by financing activities	156,664	74,010
NET DECREASE IN CASH AND CASH EQUIVALENTS	(544)	(24,498)
CASH AND CASH EQUIVALENTS — Beginning of year	21,806	46,304
CASH AND CASH EQUIVALENTS — End of year	$ 21,262	$ 21,806
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 10,660	$ 6,294
Accrued property, plant, and equipment	$ 12,481	$ 24,489
Guarantee	$ 1,400	$ -

The accompanying notes are an integral part of the consolidated financial statements.

1. ORGANIZATION AND COMMUNITY BENEFIT MINISTRY

Holy Cross Health, Inc. (the "Corporation"), a Maryland not-for-profit corporation, owns and operates a 425-bed acute care hospital and is the parent corporation for Holy Cross Health Foundation, a not-for-profit corporation established in 2007 supporting the charitable mission of the Corporation, and Maryland Care Group, Inc., a taxable corporation that owns a private home service agency. The Corporation provides services to patients who reside primarily in the local geographic region. Until April 30, 2013, the Corporation was a member of Trinity Health, an Indiana not-for-profit corporation, sponsored by Catholic Health Ministries (CHM), a public juridical person of the Holy Roman Catholic Church. Effective May 1, 2013, Trinity Health and Catholic Health East, a Pennsylvania nonprofit corporation, consolidated to form CHE Trinity Inc. ("CHE Trinity"), a unified Catholic national health system that enhances the mission of service to people and communities across the United States. Beginning on May 1, 2013, the Corporation is a member of CHE Trinity. There are significant related-party transactions with CHE Trinity and its ministry organizations.

The mission statement for the Corporation is as follows:

- We, Holy Cross Health, Inc. and CHE Trinity, serve together in the spirit of the Gospel as a compassionate and transforming healing presence within our communities. We carry out this mission in our communities through our commitment to be the most trusted provider of health care services.

Community Benefit Ministry — Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments, such as copays and deductibles, because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which it operates.

The state of Maryland requires all not-for-profit hospitals to compile and make public an annual report of community benefit activities according to the Community Benefit Reporting Requirements and Standard Definitions established by the Maryland Health Services Cost Review Commission (HSCRC). A summary prepared in accordance with the requirements reflecting the amount of the Corporation's community benefit ministry for the years ended June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Charity care (charges)	$ 30,739	$ 26,813
Unpaid costs of Medicaid — Medicaid assessment	1,688	1,745
Community health services	4,745	4,714
Health professions education	4,835	4,742
Mission-driven health services	12,829	9,049
Research	266	289
Financial contributions	16	190
Community building activities	56	62
Community benefit operations	682	1,138
Total community benefit ministry	$ 55,856	$ 48,742

The Corporation provides a significant amount of care to patients not paid for by or on behalf of those receiving it, that is reported as bad debt at cost, and not included in the amounts reported above. During the years ended June 30, 2014 and 2013, the Corporation reported bad debt at cost (determined using a cost-to-charge ratio applied to the provision for bad debts and adjusted by support received through the state's Uncompensated Care Fund of $7.9 million and $11.2 million, respectively. Bad debt at cost is included in the provision for bad debts (a component of net patient service revenue) in the consolidated statements of operations and changes in net assets.

Charity Care — Services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies and when no payment for such services is anticipated. The amounts of direct and indirect costs for services and supplies furnished under the Corporation's charity care policy totaled approximately $22.7 million and $18.9 million for the years ended June 30, 2014 and 2013, respectively, and is based on a ratio of the Corporation's operational costs to its gross charges.

Unpaid Costs of Medicaid — Medicaid Assessment — Medicaid is a joint federal and state program that pays the medical bills of people who have low income and cannot afford medical care. Maryland's regulatory system creates a unique process for hospital payment that differs from the rest of the nation. Community benefit expenses are equal to Medicaid revenue in Maryland, as such, the net effect is $0. The exception to this is the impact on the hospital of its share of the Medicaid assessment. In recent years, the state of Maryland has closed fiscal gaps in the state Medicaid budget by assessing hospitals through the rate-setting system.

Community Health Services — Community health services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Amounts reported are net of any outside funding. Some examples include health screenings, senior exercise classes, and support groups. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Health Professions Education — Health professions education includes the unreimbursed cost of training health professionals, such as medical residents, nursing students, technicians, and students in allied health professions.

Mission-Driven Health Services — Mission-driven health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include adult day care, palliative care, and pharmacy programs.

Research — Research includes unreimbursed clinical and community health research and studies on health care delivery.

Financial Contributions — Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special system-wide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and the underserved. Amounts included here also represent certain in-kind donations.

Community Building Activities — Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training, and build community coalitions.

Community Benefit Operations — Community benefit operations include costs associated with dedicated staff, community health needs, and/or asset assessments and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation — The consolidated financial statements include the accounts of the Corporation, and all wholly owned, majority-owned, and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments, which are not controlled by the Corporation, are accounted for using either the equity or the cost method of accounting. For equity-method investments, the Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other revenue in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

The accompanying consolidated financial statements present the financial position, results of operations, and changes in net assets and cash flows for the Corporation and are not necessarily indicative of what the financial position, results of operations, and changes in net assets and cash flows would have been if the Corporation had been operated as an unaffiliated corporation during the periods presented.

Use of Estimates — The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances; provisions for bad debt and charity care; the valuation of patient accounts receivable, which includes the allowance for doubtful accounts and contractual allowances; and the recorded value of investments. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents — For purposes of the consolidated statements of cash flows, cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Investments and Investment Earnings — Investments included in assets limited or restricted as to use are equity securities with readily determinable fair values classified as trading securities.

Investment earnings and losses (including realized gains and losses on investments, holding gains and losses on trading securities, interest, and dividends) are included in nonoperating items in the consolidated statements of operations and changes in net assets (see Note 11).

Investment in CHE Trinity Corporate Pooled Investment Program — The Corporation invests certain of its funds in the CHE Trinity corporate pooled investment program. The corporate pooled investment program primarily invests in the following types of financial instruments: cash and cash equivalents, debt and equity securities, mutual funds, commingled funds, hedge funds, and other investments structured as limited liability corporations or partnerships. Commingled funds and hedge funds that hold securities are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values or based on net asset value, which is calculated using the most recent consolidated financial statements. Limited liability corporations and partnerships are accounted for under the equity method. Earnings, including interest and dividends, equity earnings, and realized and unrealized gains and losses on investment in the corporate pooled investment program, are allocated to the participants based upon each participant's weighted-average percentage of the corporate pooled investment fund in which they are participating and are included in nonoperating earnings in CHE Trinity corporate pooled investment program, unless the income or loss is restricted by donor or law.

Derivative Financial Instruments — CHE Trinity periodically utilizes various financial instruments (e.g., options, and swaps) to hedge interest rate, equity downside risk, and other exposures. CHE Trinity's policies prohibit trading in derivative financial instruments on a speculative basis.

Inventories — The Corporation's inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the weighted-average cost method.

Assets Limited or Restricted as to Use — Assets set aside by the Board of Trustees (the "Board") for future capital improvements and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, and donor-restricted assets are included in assets limited or restricted as to use.

Donor-Restricted Gifts — Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and conditions are met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated statements of operations and changes in net assets.

Property and Equipment — Property and equipment, including internally used software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The useful lives of these assets range from three to 40 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Long-Lived Assets Impairment — The Corporation evaluates long-lived assets for possible impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset or related group of assets may not be recoverable from estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying value of the assets, the impairment recognized is calculated as the carrying value of the long-lived assets in excess of the fair value of the assets. The fair value of the assets is estimated based on appraisals, established market values of comparable assets, or internal estimates of future net cash flows expected to result from the use and ultimate disposition of the asset.

Prepaid Charges for Shared Information Services — The Corporation invests in information systems that are shared by all regional health ministries of CHE Trinity. Prepaid charges represent the prorated portion of the net book value of shared information systems and include hardware, software, and other capital expenses, net of accumulated depreciation on these assets. Shared information systems are recorded at cost and depreciated over the estimated useful life of the assets using the straight-line method. Useful lives range from four to 10 years.

Intercompany Loan Program — The Corporation has the ability to borrow funds through the CHE Trinity intercompany loan program. Loans under this program accrue interest at a variable rate determined quarterly. Interest and principal are paid monthly to CHE Trinity under provisions of the loan agreement.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Patient Accounts Receivable, Estimated Payables to Third-Party Payers, and Net Patient Service Revenue — The Corporation has agreements with third-party payers that provide for payments to the Corporation at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payers are included in net patient service revenue and estimated receivables from and payables to third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Estimated receivables from third-party payers, including amounts receivable from Medicare and Medicaid meaningful use programs, are included in prepaid expenses and other current assets.

Allowance for Doubtful Accounts — The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though the Corporation does not assess the patient's ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient service revenue (net of contractual provisions and discounts). For uninsured patients that do not qualify for charity care, the Corporation establishes an allowance to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the aging of accounts receivable and the historical collection experience and for each type of payer. A significant portion of the Corporation's provision for doubtful accounts relates to self-pay patients, as well as copayments and deductibles owed to the Corporation by patients with insurance. The Corporation's allowance for doubtful accounts for self-pay was 60% and 53% of total self-pay patient receivables at June 30, 2014 and 2013, respectively.

Income Taxes — The Corporation and Holy Cross Health Foundation have been recognized as tax exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has a taxable subsidiary, Maryland Care Group, Inc., which is included in the consolidated financial statements. Maryland Care Group, Inc., has entered into a tax-sharing agreement and files consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation and its subsidiaries include penalties and interest, if any, with its provision for income taxes. The Corporation has no uncertain tax positions at June 30, 2014 and 2013.

Excess of Revenue over Expenses — The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include the permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and cumulative effect of changes in accounting principles.

Forthcoming Accounting Pronouncements — In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force)*. This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This guidance is effective for the Corporation beginning July 1, 2014, with early adoption permitted. The Corporation has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, *Not-For-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)*. This guidance requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donor. In addition, this guidance indicates that those contributed services should be recognized only if they (1) create or enhance nonfinancial assets or (2) require specialized skills, which are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. This guidance is effective for the Corporation beginning July 1, 2014, with early adoption permitted. The Corporation does not expect this guidance to have an impact on its consolidated financial statements.

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Investments in Unconsolidated Affiliates — The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At June 30, 2014 and 2013, the Corporation maintained investments in unconsolidated affiliates with ownership interests of 20% at both June 30, 2014 and 2013. The Corporation's share of equity earnings from entities accounted for under the equity method was $552,888 and $562,200 for the years ended June 30, 2014 and 2013, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. The Corporation also recorded $156,913 and $308,648 for the years ended June 30, 2014 and 2013, respectively, in dividends from entities accounted for under the cost method, which is included in other revenue in the consolidated statements of operations and changes in net assets. Investments in unconsolidated affiliates as of June 30, 2014 and 2013, include the following:

Maryland Physicians Care (MPC) — Effective April 7, 2014, the Corporation acquired a 20% ownership in MPC, a Medicaid managed care organization. The Corporation accounts for the investment using the equity method of accounting.

Chesapeake Potomac Regional Cancer Center (CPRCC) — Effective July 1, 2007, Maryland Regional Cancer Center (MRCC) divested 100% of the CPRCC. The Corporation acquired a 20% ownership in CPRCC, a radiation therapy center. The Corporation accounts for the investment using the equity method of accounting.

Doctor's Regional Cancer Center (DRCC) — Effective July 1, 2007, MRCC divested 100% of the DRCC. The Corporation received a direct distribution from the gain on sale and acquired a 20% ownership in DRCC, a radiation therapy center. The Corporation accounts for the investment using the equity method of accounting.

The unaudited summarized financial position and results of operations of these entities accounted for under the equity method as of and for the years ended June 30, 2014 and 2013, are as follows (in thousands):

	2014		
	CPRCC	**DRCC**	**MPC**
Total assets	$ 7,482	$ 6,744	$ 283,205
Total liabilities	1,019	2,695	200,727
Net assets	6,463	4,049	82,478
Revenue — net	8,329	6,627	409,357
Excess of revenue over expenses	745	127	1,538

	2013	
	CPRCC	**DRCC**
Total assets	$ 7,351	$ 8,048
Total liabilities	1,633	3,362
Net assets	5,718	4,686
Revenue — net	8,068	7,044
Excess of revenue over expenses	790	772

4. NET PATIENT SERVICE REVENUE

A summary of payment arrangements with major third-party payers is as follows:

Maryland HSCRC — Certain of the Corporation's charges are subject to review and approval by the Maryland HSCRC (the "Commission"). The Corporation's management has filed the required forms with the Commission and believes the Corporation to be in compliance with the Commission's requirements.

The rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Centers for Medicare and Medicaid Services (CMS) and the Commission. The agreement provides that the programs reimburse the Corporation at set discounts from approved rates for services provided to program beneficiaries and is based upon a long-standing waiver from Medicare reimbursement principles in effect since 1977. In January 2014, CMS and the Commission agreed to implement a revised waiver and the previous waiver was terminated. The revised agreement allows a waiver from Medicare reimbursement principles under Section 1115A of the Social Security Act and continues as long as all hospitals elect to be reimbursed under this program, the all-payer annual per capita total hospital cost growth does not exceed 3.58%, the Medicare per capita total hospital cost growth remains lower than the national annual per capita growth rate and significant quality improvements are achieved related to 30-day hospital readmission rates and hospital acquired conditions. The new waiver agreement is expected to remain in effect through calendar 2018.

Under the Commission's previous reimbursement methodology, a target average charge per episode was established for the Corporation based on past actual charges and case mix indices and adjusted each year for inflation. The actual average charge per episode was compared with target average charge per case and, to the extent that the actual average exceeded or was less than the target, the overcharge or undercharge, plus applicable penalties reduced (in the case of overcharges) or increased (in the case of undercharges) the approved target for future rate years. This reimbursement methodology was in effect for the Corporation through June 30, 2013, and the Corporation was in compliance with its average charge per episode. Under the Commission's new reimbursement methodology, the Corporation entered a global budget arrangement and a gross revenue target was established for the Corporation based on fiscal year 2013 charges adjusted for inflation and other statewide allocation adjustments. The actual revenue charged was compared to the revenue target and to the extent that the actual revenue exceeded or was less than the target, the overcharge or undercharge, plus applicable penalties reduced (in the case of overcharges) or increased (in the case of undercharges) the approved target for future rate years. At June 30, 2014, the Corporation was in compliance with its revenue target.

The Commission's rate setting methodology for Corporation's service centers that provide inpatient and outpatient services or only outpatient services consists of establishing an acceptable unit rate for defined inpatient and outpatient service centers within the hospital. The actual average unit charge for each service center is compared to the approved rate monthly and annually. Over and undercharges due to either patient volume or price variances, plus penalties, where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis.

The timing of the Commission's rate adjustments for the Corporation could result in an increase or reduction in rates due to the variances and penalties described above in a year subsequent to the year in which such items occur. The Corporation's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed.

Kaiser Permanente — In accordance with the rate review system established by the Commission, the Corporation and Kaiser Permanente have agreed that those charges subject to the rate review system and covered by Kaiser Permanente are generally paid at 95% of billed charges.

Medicare and Medicaid — Hospitals regulated by the Commission have been granted a waiver from the prospective payment system reimbursement provisions of the Medicare and Medicaid programs. The Corporation generally is paid at 94% of allowable charges for covered services under these programs. The Corporation is paid for outpatient dialysis at prospectively determined rates. These rates vary according to clinical, diagnostic, and other factors.

Patient service revenues, net of contractual, charity, and other allowances (but before the provision for bad debts) recognized during the years ended June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Blue Cross	$ 61,848	$ 64,980
Commercial and other	121,132	122,946
Medicaid	70,022	66,341
Medicare	149,352	136,419
Uninsured	10,327	15,558
Net patient service revenue before provision for bad debts	$ 412,681	$ 406,244

A summary of net patient service revenue before provision for bad debts for the years ended June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Gross charges:		
Acute inpatient	$ 327,834	$ 320,612
Outpatient, nonacute inpatient, and other	170,021	169,159
Gross patient revenue	497,855	489,771
Less:		
Contractual and other allowances	(54,435)	(56,714)
Charity care charges	(30,739)	(26,813)
Net patient service revenue before provision for bad debts	$ 412,681	$ 406,244

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Land	$ 493	$ 493
Buildings and improvements	230,968	213,630
Equipment	121,283	119,676
Total	352,744	333,799
Less accumulated depreciation and amortization	(228,329)	(220,511)
Construction in progress	245,522	119,175
Property and equipment — net	$ 369,937	$ 232,463

Equipment includes assets recorded under capital leases of $2.8 million with accumulated amortization for such assets of $2.6 million and $2.2 million as of June 30, 2014 and 2013, respectively. The associated charges to income are recorded in depreciation and amortization expense. In June 2014 and 2013, the Corporation completed an inventory of all fixed and movable equipment capitalized in the fixed asset system. The inventory resulted in the removal of $10.5 million and $19.3 million for the years ended June 30, 2014 and 2013, respectively, of retired assets with the majority being fully depreciated.

On January 20, 2011, Maryland Health Care Commission granted two certificates of need for the Corporation. These two certificates of need relate to the construction of a 93-bed hospital in Germantown, Maryland, and the construction of a Silver Spring Tower to augment the patient care at the existing licensed bed facility in Silver Spring, Maryland. The total budgets for the projects are $206.9 million and $207.9 million, respectively. As of June 30, 2014, $269.5 million has been incurred to date under the construction projects. Construction of the Holy Cross Germantown Hospital was completed, and the facility was opened on October 1, 2014 as planned.

Funding will be provided from cash, investment in the CHE Trinity corporate pooled investment program, philanthropy, and a bond issue through CHE Trinity. The total amount of estimated borrowings from CHE Trinity is $345.8 million. Of this amount, $273.7 million has been borrowed as of June 30, 2014, with an estimated amount of $72.1 million to be borrowed in fiscal years 2015 and 2016.

The total amount of interest capitalized was $7.2 million and $2.4 million for the years ended June 30, 2014 and 2013, respectively.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of notes payable, including amounts owed to CHE Trinity, at June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Notes payable to CHE Trinity, 1.05% to 4.6% during 2014 and 0.1% to 4.9% during 2013, payable in varying monthly installments — due through 2048	$ 363,257	$ 204,999
Less current portion of notes payable	(7,476)	(3,778)
Total notes payable	$ 355,781	$ 201,221

Scheduled principal repayments on long-term debt as of June 30, 2014, are as follows (in thousands):

Years Ending June 30	
2015	$ 7,476
2016	7,766
2017	8,016
2018	8,478
2019	8,843
Thereafter	322,678
Total	$ 363,257

Obligated Group and Other Requirements — CHE Trinity has debt outstanding under a Master Trust Indenture dated October 3, 2013, as amended and supplemented thereto, the Amended and Restated Master Indenture (ARMI). The ARMI permits CHE Trinity to issue obligations to finance certain activities. Obligations issued under the ARMI are general, direct obligations of CHE Trinity and any future members of the CHE Trinity Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI CHE Trinity is the sole member of CHE Trinity Obligated Group. Certain RHMs of CHE Trinity constitute designated affiliates and CHE Trinity covenants to cause each designated affiliate to pay, loan, or otherwise transfer to the Obligated Group such amounts necessary to pay the amounts due on all obligations issued under the ARMI Obligated group and designated affiliates are referred to as the Credit Group. CHE Trinity has granted a security interest in certain pledged property and has caused not less than 85% of the Designated Affiliates representing, when combined with CHE Trinity and any future members, not less than 85% of the consolidated net revenue of the Credit Group to grant to CHE Trinity security interests in certain pledged property in order to secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) are $4,264 million and $3,002 million at June 30, 2014 and 2013, respectively.

The interest paid to CHE Trinity is based on CHE Trinity’s borrowings under the Master Trust Indenture. The borrowings by CHE Trinity are both at fixed and variable rates. See Note 11 regarding the amount of outstanding debt by CHE Trinity that is fixed and variable.

There are several conditions and covenants required by the ARMI with which CHE Trinity must comply, including covenants that require CHE Trinity to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property CHE Trinity or any material designated affiliate (a Designated Affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of CHE Trinity for the most recent fiscal year). Long-term debt outstanding as of June 30, 2014 and 2013, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation is a participant in a self-insured, pooled-risk professional, and general liability program established for the regional health ministries of CHE Trinity. As a result, the Corporation is self-insured for certain levels of general and professional liability, workers' compensation, and certain other claims.

For the years ended June 30, 2014 and 2013, CHE Trinity's self-insurance program includes $20 million per occurrence for the first layers of professional liability, as well as $10 million per occurrence for hospital government liability, $5 million per occurrence for errors and omission liability, and $1 million per occurrence for directors' and officers' liability. Additional layers of professional liability insurance are available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is $100 million in aggregate. The Corporation self-insures $750,000 per occurrence for worker's compensation, with commercial insurance providing coverage up to the statutory limits, and also self-insures $500,000 in property damage liability with commercial insurance providing coverage up to $1 billion.

The Corporation has contributed an amount to CHE Trinity representing its share of the expected losses under the aforementioned programs and charged its contributions to expense. The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid. The reserves are based on the loss and loss adjustment expense factors inherent in CHE Trinity's premium structure. Independent consulting actuaries determined these factors from estimates of CHE Trinity's expenses and available industry-wide data. Beginning in fiscal year 2013, CHE Trinity began discounting the reserves to their present value. As of June 30, 2014 and 2013, a discount rate of 3% was used. The impact of this change in assumption resulted in a reduction of $2 million in insurance expense for the fiscal year 2013. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related allocated loss adjustment expenses is adequate based on the loss experience of CHE Trinity. The estimates are continually reviewed and adjusted as necessary.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2014, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations, or cash flows of the Corporation.

8. PENSION AND OTHER BENEFIT PLANS

Self-Insured Employee Health Benefits — CHE Trinity administers a self-insured employee health benefits plans for its employees. The majority of the Corporation's employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's member organizations or other health care providers. The Corporation provides for reported claims and claims incurred but not reported from other health care providers.

Defined Compensation Benefits — The Corporation sponsors defined contribution pension plans covering substantially all of its employees. The plans include discretionary employer-matching contributions of up to 3% of compensation. Effective January 1, 2013, the Corporation suspended the majority of employer-matching contributions. Employer and employee contributions are self-directed by the plan participants in defined contribution plans. Contribution expense under the plans totaled approximately $1.5 million in 2013. There were no employer matching contributions in 2014.

Deferred Compensation — The Corporation has a nonqualified deferred compensation plan, which permits eligible employees to defer a portion of their compensation. The plan is funded and is distributable in cash after retirement or termination of employment. The plan allows participants to defer up to a maximum of $15,000 of salary with investment income accruing based on investment selections of the participant. The assets and liabilities under the plan totaled $51,348 and $49,137 at June 30, 2014 and 2013, respectively.

Noncontributory Defined Benefit Pension Plans ("Pension Plans") — Substantially, all of the Corporation's employees participate in qualified Pension Plans. The Pension Plans' assets are invested in equity securities, fixed-income securities, money market investments, hedge funds, commingled funds directly holding securities, long/short equity, private equity funds, and real estate. The Pension Plans are accounted for as a multiple-employer plan and has church plan status as defined in the Employee Retirement Income Security Act of 1974. As a multiple-employer plan, the Corporation contributes an amount equal to its proportionate share of the annual expense of CHE Trinity. For the year ended June 30, 2014, net pension cost was $8.4 million. Effective June 2014, the Pension Plans were amended to freeze all future benefit accruals as of December 31, 2014.

Postretirement Health Care and Life Insurance Benefits ("Postretirement Plans") — The Corporation participates in a contributory plan established to provide uniform, defined postretirement health benefits and life insurance ("retiree medical plan") to certain retirees of organizations affiliated with CHE Trinity. Medical benefits for these retirees are subject to deductibles and copayment provisions. All of the Postretirement Plans are closed to new participants. The Postretirement Plans' assets are invested in equity securities, fixed-income funds, and money market investments. The Postretirement Plans' are accounted for as a multiemployer plan. As a multiemployer plan, the Corporation contributes an amount equal to its proportionate share of the annual expense of CHE Trinity. In June 2010, CHE Trinity approved an amendment to restructure the funded plans as health reimbursement account arrangements for Medicare eligible participants effective January 1, 2011. For the years ended June 30, 2014 and 2013, retiree medical plan income was $1.5 million and $1.7 million, respectively.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases — The Corporation leases various land, equipment, and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, for the years ended June 30, 2014 and 2013, was $2.6 million and $2.7 million, respectively.

A schedule of future minimum lease payments under operating leases as of June 30, 2014, that have initial or remaining lease terms in excess of one year is as follows (in thousands):

Years Ending June 30	
2015	$ 1,786
2016	1,806
2017	1,902
2018	1,831
2019	1,743
Thereafter	6,342
Total	$ 15,410

Guarantee — In November 2013, the Corporation entered into an agreement with HCH MOB, LLC (which, in turn, is owned by NexCore Development LLC and its affiliates), the developer of a medical office building (MOB) to provide support, so that the developer could obtain financing to start the construction of a MOB at the site of the Corporation's new hospital, Holy Cross Germantown Hospital. The Corporation's obligation associated with the support agreement is for 20% of the rental space and will end once the space rented exceeds 80% or five years. Monthly support payments will be made once the construction is completed and the building is ready for occupancy. A liability of $1.4 million has been recorded as the estimated fair value of the guarantee.

Asset Retirement Obligations — The Corporation has conditional asset retirement obligations for certain fixed assets mainly related to the removal of asbestos, lead paint, and a lead-lined room. A reconciliation of the asset retirement obligation at June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Asset retirement obligation — beginning of year	$ 593	$ 573
Accretion of expense	289	20
Remediation costs	(67)	-
Asset retirement obligation — end of year	$ 815	$ 593

Litigation — The Corporation is involved in litigation and regulatory investigations arising in the course of doing business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's consolidated financial position or results of operations.

10. RELATED-PARTY TRANSACTIONS

The Corporation is allocated the cost of central-administered services from the corporate office of CHE Trinity. The Corporation also shares certain services with affiliates and other regional health ministries of CHE Trinity. These services include treasury management, information systems, benefits administration, clinical engineering, accounts payable, patient financial services, and professional liability insurance. The composition of the related-party transactions with CHE Trinity and other ministry organizations at June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Amounts recorded in the consolidated balance sheets:		
Investments in corporate pooled investment funds:		
Investments in CHE Trinity corporate pooled investment program	$ 281,864	$ 243,439
Assets limited or restricted as to use	1,329	1,326
Total investments in corporate pooled investment funds	283,193	244,765
Prepaid expenses and other current assets	63	430
Prepaid charges for shared information systems	20,819	20,859
Accounts and other payables	3,049	4,477
Deferred compensation liability	51	49
Notes payable to CHE Trinity, including current portion	363,257	204,999
Amounts recorded in the consolidated statements of operations and changes in net assets:		
Other revenue	63	136
Operating expenses:		
Employee benefits	7,862	7,160
Contract labor	5,546	4,124
Purchased services:		
Information services	19,929	19,250
Management services	4,917	5,045
Revenue management services	1,077	1,289
Supply chain and accounts payable services	382	435
Repairs and maintenance — included in occupancy	2,912	3,047
Amortization	5,477	5,072
Interest expense (including amounts capitalized)	10,658	6,305
Insurance — included in other expenses	7,186	4,777
Other	355	317
Nonoperating items:		
Earnings in CHE Trinity corporate pooled investment program	24,812	14,414
Other — included in nonoperating items	(1,549)	(1,136)
Transfers to affiliates	(5,130)	(5,374)

CHE Trinity has purchased or constructed fixed assets, mainly computer hardware and software, that are utilized by the ministry organizations of CHE Trinity. The Corporation pays a prepaid service charge to CHE Trinity to share in the use of these assets as allocated by CHE Trinity and has recorded the prepayment as prepaid charges for shared information services. As the assets are used, the Corporation records amortization expense as allocated by CHE Trinity.

11. FAIR VALUE MEASUREMENTS

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include cash, cash equivalents, equity securities, debt securities, mutual funds, commingled funds, hedge funds, securities lending collateral, and derivatives. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of nonperformance risk.

To determine fair value, the Corporation uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation assesses the inputs used to measure fair value using a three-level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 — Quoted (unadjusted) prices for identical instruments in active markets.

Level 2 — Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets;
- Quoted prices for identical or similar instruments in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data.

Valuation Methodologies — Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures. The inputs to these models depends on the type of security being priced, but are typically benchmark yields, credit spreads, prepayment speeds, reported trades, and broker-dealer quotes, all with reasonable levels of transparency. Generally, significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. The Corporation classifies these securities as Level 2 within the fair value hierarchy.

CHE Trinity maintains policies and procedures to value instruments using the best and most relevant data available. CHE Trinity's Level 3 securities are primarily investments in hedge funds. The fair values of Level 3 investments in these securities are predominately provided using a net asset value per share, which is provided by third-party administrators; however, in some cases, they are obtained directly from the investment fund manager. The Corporation did not adjust the prices obtained. Third-party pricing services do not provide access to their proprietary valuation models, inputs, and assumptions. Accordingly, CHE Trinity reviews the independent reports of internal controls for these service providers. In addition, on a quarterly basis, CHE Trinity performs reviews of investment consultant industry peer group benchmarking and supporting relevant market data. Finally, all of the fund managers of the Corporation's Level 3 securities have an annual independent audit performed by an accredited accounting firm. CHE Trinity reviews these audited financials for ongoing validation of pricing used. Based on the information available, the Corporation believes that the fair values provided by the third-party pricing services and investment fund managers are representative of prices that would be received to sell the assets at June 30, 2014 and 2013, respectively.

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation uses for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents and Assets Limited or Restricted as to Use — The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in assets limited or restricted as to use in the consolidated balance sheets.

Commercial Paper — The fair value of commercial paper is based on amortized cost. Commercial paper is designated as Level 2 investments with significant observable inputs, including security cost, maturity and credit rating. Commercial paper is classified as either cash and cash equivalents or marketable securities in the consolidated balance sheets depending upon the length to maturity when purchased and are included in cash and cash equivalents or debt securities in the fair value table.

Security Lending Collateral — The security lending collateral is invested in a Northern Trust-sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value amounts of the commingled collateral fund are determined using the calculated net asset value per share (or its equivalent) for the fund with the underlying investments valued using techniques similar to those used for marketable securities noted below.

Equity Securities — Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded, or are estimated using quoted market prices for similar securities.

Debt Securities — Estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures.

Mutual Funds — Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, and divided by the number of shares outstanding, and multiplied by the number of shares owned.

Investment in Corporate Pooled Investment Program — CHE Trinity invests in various investment vehicles of which the Corporation has included in investment in corporate pooled investment program and assets limited or restricted as to use in the consolidated balance sheets including cash, cash equivalents, and marketable securities described above. In addition, the following is a description of the other instruments along with the related valuation methodologies CHE Trinity uses:

Commingled Funds — Commingled funds are developed for investment by institutional investors only and, therefore, do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements. Commingled funds are categorized as Level 2, unless they have a redemption restriction greater than 95 days, in which case they are categorized as Level 3.

Hedge Funds — The Corporation invests in various hedge fund strategies. These funds utilize either a direct or a "fund-of-funds" approach resulting in diversified multistrategy, multimanager investments. Underlying investments in these funds may include equities, fixed-income securities, commodities, currencies, and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements. Hedge funds are categorized as Level 2, unless they have a redemption restriction greater than 95 days, in which case they are categorized as Level 3.

Equity Method Investments — CHE Trinity accounts for certain other investments using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a combination of "fund-of-funds" and direct fund investment resulting in diversified multistrategy, multimanager investments approach. Some of these are developed by investment managers specifically for CHE Trinity's use and are similar to mutual funds, but are not traded on a public exchange. Underlying investments in these funds may include other funds, equities, fixed-income securities, commodities, currencies, and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds' year-end. Management's estimates of the fair values of these investments are based on information provided by the third-party administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management's internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Investment managers meet with CHE Trinity's Investment Subcommittee of the Finance and Stewardship Committee of the Board of Directors on a periodic basis. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed.

The Corporation classifies its marketable securities and commingled funds as trading securities. As a result, all realized gains and losses at June 30, 2014 and 2013, are included in excess of revenue over expenses. Net holding gains recorded for trading securities in the consolidated statements of operations and changes in net assets for the years ended June 30, 2014 and 2013, were approximately $9.4 million and $8.2 million, respectively.

The fair values, by input hierarchy, of financial instruments measured at fair value on a recurring basis at June 30, 2014 and 2013, respectively, according to the valuation techniques the Corporation used to determine their fair values are as follows (in thousands):

	2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 23,868	$ -	$ -	$ 23,868
U.S. equity securities and mutual funds	46	-	-	46
Total	$ 23,914	$ -	$ -	$ 23,914

	2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 25,854	$ -	$ -	$ 25,854
U.S. equity securities and mutual funds	39	-	-	39
Total	$ 25,893	$ -	$ -	$ 25,893

The Corporation's policy is to recognize transfers in and transfers out between all levels as of the beginning of the reporting period. There were no transfers to or from Level 1, Level 2, or Level 3 during the years ended June 30, 2014 or 2013.

The following tables summarize information about the fair value of the Corporation’s financial assets in the investment in the CHE Trinity corporate pooled investment program at June 30, 2014 and 2013, according to asset category and the valuation techniques used to determine their fair values. Investments accounted for under the equity method of accounting represent 22% and 18% of the investment in the CHE Trinity corporate pooled investment program at June 30, 2014 and 2013, which are excluded from the tables below:

	2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Assets:				
Cash and cash equivalents	15 %	- %	- %	15 %
Marketable securities:				
Equity securities	13	-	-	13
Debt securities:				
U.S. and non-U.S. government and government agency obligations	-	4	-	4
Corporate bonds	-	3	-	3
Asset-backed securities	-	1	-	1
Bank loan	-	1	-	1
Mutual funds:				-
Equity mutual fund	9	-	-	9
Fixed-income mutual fund	7	-	-	7
Total marketable securities	29	9	-	38
Commingled funds	-	10	-	10
Hedge funds	-	10	5	15
Total investment in CHE Trinity corporate pooled pooled investment program	44 %	29 %	5 %	78
Equity method investments not included in fair value table				22
Total percentage				100 %

	2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	17 %	- %	- %	17 %
Marketable securities:				
Equity securities	8	-	-	8
Debt securities:				
U.S. and non-U.S. government and government agency obligations	-	2	-	2
Corporate bonds	-	3	-	3
Mutual funds:				
Equity mutual fund	8	-	-	8
Fixed-income mutual fund	13	-	-	13
Total marketable securities	29	5	-	34
Commingled funds	-	15	-	15
Hedge funds	-	7	9	16
Total investment in CHE Trinity corporate pooled investment program	46 %	27 %	9 %	82
Equity method investments not included in fair value table				18
Total percentage				100 %

CHE Trinity holds shares or interests in investment companies at year-end, included in commingled funds and hedge funds, where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company. The redemption periods range from daily to semiannually and the redemption notice periods range from 0 days to 95 days. There were no unfunded commitments as of June 30, 2014 or 2013.

The composition of investment returns, including earnings on investments in the CHE Trinity corporate pooled investment program, included in the consolidated statements of operations and changes in net assets for the years ending June 30, 2014 and 2013, are as follows (in thousands):

	2014	2013
Dividend, interest income, and other	$ 2,628	$ 2,650
Net realized gains	9,386	8,184
Change in net unrealized gains on investments	12,807	3,588
Total investment return	$ 24,821	$ 14,422
Included in:		
Nonoperating items	$ 24,812	$ 14,414
Permanently restricted net assets	9	8
Total investment return	$ 24,821	$ 14,422

The following methods and assumptions were used by the Corporation in estimating the fair value of the Corporation's financial instruments that are not measured at fair value on a recurring basis for disclosures in the consolidated financial statements:

Unconditional Promises to Give — The carrying amount reported in the consolidated balance sheets for contributions and pledges receivable is at its estimated fair value. Unconditional promises to give at June 30, 2014 and 2013, consist of the following (in thousands):

	2014	2013
Amount expected to be collected in:		
Less than one year	$ 2,767	$ 3,341
One to five years	3,018	3,843
Total contributions receivable	5,785	7,184
Discount to present value of future cash flows	(228)	(457)
Allowance for uncollectible amounts	(118)	(167)
Total unconditional promises to give — net	$ 5,439	$ 6,560

Patient Accounts Receivable and Current Liabilities — The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Long-Term Debt — The fair value of the Corporation's intercompany debt under the CHE Trinity intercompany loan program is based on its proportionate share of CHE Trinity's fair value for its fixed- and variable-rate bonds issued under its master indenture. The carrying amounts of the CHE Trinity's variable-rate long-term debt approximate its fair values. The fair value of CHE Trinity's fixed-rate long-term revenue and refunding bonds is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed-rate long-term revenue and refunding bonds was $3,195 million and $2,247 million for 2014 and 2013, respectively. Under the fair value hierarchy, these financial instruments are valued primarily using Level 2 inputs. The related carrying value of the fixed-revenue and refunding bonds was $2,920 million and $2,135 million for 2014 and 2013, respectively.

12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 20, 2014, the date the consolidated financial statements were available to be issued (See Note 5).

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Deloitte.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL CONSOLIDATING INFORMATION

To CHE Trinity Inc. and the
Board of Trustees of Holy Cross Health, Inc.:

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information on pages 31-33 are presented for the purpose of additional analysis of the consolidated financial statements, rather than to present the financial position, results of operations, and cash flows of the individual entities and are not a required part of the consolidated financial statements. This supplemental consolidating information is the responsibility of Holy Cross Health, Inc.'s management, was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such supplemental consolidating information have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such supplemental consolidating information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

October 20, 2014

SUPPLEMENTAL CONSOLIDATING INFORMATION

HOLY CROSS HEALTH, INC.
(A Member of CHE Trinity, Inc.)

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF JUNE 30, 2014
(In thousands)

ASSETS	**Holy Cross Hospital**	**Holy Cross Health Network**	**Holy Cross Foundation**	**Maryland Care Group**	**Total**
CURRENT ASSETS:					
Cash and cash equivalents	$ 13,960	$ 495	$ 765	$ 6,042	$ 21,262
Investment in CHE Trinity corporate pooled investment program	280,980	-	884	-	281,864
Patient accounts receivable — net of allowance for doubtful accounts of $9.9 million and $14.1 million in 2014 and 2013, respectively	55,134	231	-	110	55,475
Inventories	5,562	-	-	-	5,562
Prepaid expenses and other current assets	14,660	(4,108)	19	(4,946)	5,625
Total current assets	370,296	(3,382)	1,668	1,206	369,788
ASSETS LIMITED OR RESTRICTED AS TO USE :					
Deferred compensation	51	-	-	-	51
By donors	273	-	9,096	-	9,369
Total assets limited or restricted as to use	324	-	9,096	-	9,420
PROPERTY AND EQUIPMENT — Net	368,918	1,019	-	-	369,937
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	19,996	-	-	-	19,996
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	20,819	-	-	-	20,819
OTHER ASSETS	8,914	-	-	-	8,914
TOTAL ASSETS	$789,267	$(2,363)	$10,764	$ 1,206	$798,874
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Current portion of notes payable to CHE Trinity	$ 7,476	$ -	$ -	$ -	$ 7,476
Accounts payable	39,985	12	-	40	40,037
Accrued expenses	555	-	-	-	555
Salaries, wages, and related liabilities	19,200	644	-	25	19,869
Estimated payables to third-party payers	16,961	-	-	-	16,961
Total current liabilities	84,177	656	-	65	84,898
NOTES PAYABLE TO CHE TRINITY— Net of current portion	355,781	-	-	-	355,781
OTHER LONG-TERM LIABILITIES	3,396	-	-	-	3,396
Total liabilities	443,354	656	-	65	444,075
NET ASSETS (DEFICIENCY):					
Unrestricted	345,640	(3,019)	1,668	1,141	345,430
Temporarily restricted	227	-	9,096	-	9,323
Permanently restricted	46	-	-	-	46
Total net assets (deficiency)	345,913	(3,019)	10,764	1,141	354,799
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	$789,267	$(2,363)	$10,764	$ 1,206	$798,874

HOLY CROSS HEALTH. INC
(A Member of CHE Trinity, Inc.)

CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2014
(In thousands)

	Holy Cross Hospital	Holy Cross Health Network	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED REVENUE:					
Patient service revenue — net of contractual and other allowances	$410,506	$ 1,397	$ -	$778	$412,681
Provision for bad debts	15,487	-	-	-	15,487
Net patient service revenue	395,019	1,397	-	778	397,194
Net assets released from restrictions	486	15	427	-	928
Other revenue	14,653	1,422	1	-	16,076
Total unrestricted revenue	410,158	2,834	428	778	414,198
EXPENSES:					
Labor:					
Salaries and wages	164,734	3,823	-	530	169,087
Employee benefits	35,470	494	-	36	36,000
Contract labor	6,554	-	-	-	6,554
Total labor expense	206,758	4,317	-	566	211,641
Supplies	65,735	160	285	2	66,182
Purchased services	59,578	646	142	193	60,559
Depreciation and amortization	23,621	126	-	-	23,747
Occupancy	13,544	576	-	29	14,149
Interest	3,723	-	-	-	3,723
Other	10,866	28	-	8	10,902
Total expenses	383,825	5,853	427	798	390,903
Operating income	26,333	(3,019)	1	(20)	23,295
NONOPERATING ITEMS:					
Earnings on CHE Trinity corporate pooled investment program	24,611	-	201	-	24,812
Other	(1,549)	-	-	-	(1,549)
Total nonoperating items	23,062	-	201	-	23,263
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 49,395	$ (3,019)	$202	$ (20)	$ 46,558

(Continued)

HOLY CROSS HEALTH, INC.
(A Member of CHE Trinity, Inc.)

CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2014
(In thousands)

	Holy Cross Hospital	Holy Cross Health Network	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED NET ASSETS:					
Excess (deficiency) of revenue over expenses	$ 49,395	$ (3,019)	$ 202	$ (20)	$ 46,558
Net assets released from restrictions for capital	-	-	4,000	-	4,000
Transfers to affiliates	(1,130)	-	(4,000)	-	(5,130)
Increase (decrease) in unrestricted net assets	48,265	(3,019)	202	(20)	45,428
TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	199	-	2,206	-	2,405
Net assets released from restrictions	(192)	-	(4,736)	-	(4,928)
Increase (decrease) in temporarily restricted net assets	7	-	(2,530)	-	(2,523)
PERMANENTLY RESTRICTED NET ASSETS					
Investment income	9	-	-	-	9
Other	(2)	-	-	-	(2)
Increase in permanently restricted net assets	7	-	-	-	7
INCREASE (DECREASE) IN NET ASSETS	48,279	(3,019)	(2,328)	(20)	42,912
NET ASSETS — Beginning of year	297,634	-	13,092	1,161	311,887
NET ASSETS (DEFICIENCY) — End of year	$345,913	$ (3,019)	$10,764	$1,141	$354,799